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# Gentrification in Santiago, Chile: a property-led process of dispossession and exclusion

Ernesto López-Morales

Department of Urban Planning, University of Chile, Santiago, Chile

## ABSTRACT

Between 2000 and 2012, the Santa Isabel area of the Santiago-Centro *comuna* (municipal district) saw increasing capital concentration in middle-income-oriented, new-build real estate. Whilst large developers devised several ways to pay low land prices to original owner-residents, the average sale price of new apartments rose, reducing the amount of housing options in the area by at least 50% for original low-income residents—a form of exclusionary displacement. In parallel, state regulations intensified the Floor Area Ratio in order to anchor real-estate investment to their territories, substantively leading to development projects with much higher density rates, higher rents, and smaller living spaces. In this article, I draw upon an analysis of 262 land plots that were redeveloped into 65 new high-rise projects and a survey of 195 original households who lived in the still non-redeveloped properties inside the case study area, in order to analyze how Santiago's high-rise urban renewal (usually) means new-build gentrification led by the state and monopolized by large-scale developers.

## ARTICLE HISTORY

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Gentrification; exclusionary displacement; urban renewal; Santa Isabel; Santiago; Chile

## Introduction

Loretta Lees (2012, 2014a) has claimed that gentrification studies in the Global South need to be sensitive enough to recognize pre-existing processes of urban change and to contest the hegemony of context-dependent narratives of gentrification from the (predominantly Anglo-American) Global North. Usually, these narratives inadvertently take for granted, or even ignore, the differing political-economic implications of the term “gentrification” outside of the Anglo-American domain. For instance, Hackworth and Smith's (2001) New York City-embedded wave-model of gentrification hardly explains cases where the first and second waves<sup>1</sup> of gentrification have not occurred. On the other hand, Clark (2005, p. 258) offers a simple definition of gentrification in the context of urban land commodification and polarized power relations; defining it as “a change in the population of land-users such that the new users are of a higher socioeconomic status than the previous users, together with an associated change in the built environment through a reinvestment in fixed capital”. This perspective is broad enough to encompass the contextual differences of each case, while also specific enough

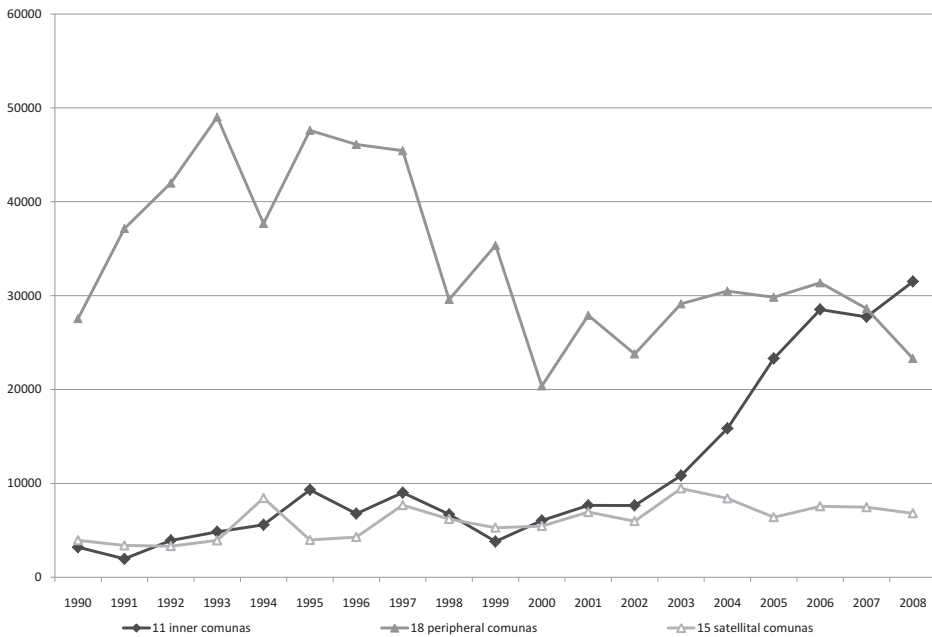
to not lose sight of the relational and dialectical class-oriented power analysis that the gentrification lens offers.

The emerging discussions on gentrification in Latin America seem to proffer enough mounting evidence to make the claim that there are several types of gentrification to be found in this region that do not necessarily resemble the sort of gentrification previously found in the Global North (Janoschka, Sequera, & Salinas, 2014). However, a growing number of researchers show (eg. Díaz-Parra & Rabasco-Pozuelo, 2013; Herzer, 2008; Inzulza-Contardo, 2011; Kanai & Ortega-Alcázar, 2009; López-Morales, 2011, 2013a)—as per Clark's broad yet class-based explanation—that the different gentrification issues in Latin America are all related to a state-led class restructuring of urban space, a growing lack of affordable housing, and the disappearance of spaces for social reproduction for lower-income groups in central areas.<sup>2</sup>

The main goal of this article is to address gentrification-related effects of displacement in Santiago, Chile, by comparing the process of value extraction and absorption (as ground rent, or profits derived from the sale, or lease of land) by developers against that of local owner-residents, amidst the process of high-rise urban renewal that has characterized this city over the last 25 years. The amount of ground rent captured by original resident, small-plot landowners is contrasted with the average sales price of the new accommodations supplied in the area. By doing so, we are able to understand the extent to which there is displacement and exclusion from the existing housing market in the area, hence exclusionary displacement (Slater, 2009). Although the metropolitan inner area of Santiago comprises 11 *comunas*,<sup>3</sup> this article focuses only on the Santiago-Centro *comuna* (more specifically the Santa Isabel neighborhood), which is the area that has seen the largest number of new square meters built and the most intense spatial concentration of property-led, high-rise renovation in Santiago over the past 15 years (López-Morales, 2013a).

From the 1990s onwards, Santiago's inner<sup>4</sup> *comunas* have seen an increasing production of 25-storey and even higher residential condos concentrated in formerly low-income neighborhoods, aimed at middle-income consumers. The proliferation of this type of construction has increasingly made the central areas of Santiago resemble higher-density cities such as Sao Paulo or Mexico City. Such change has been possible because of the accumulation of financial and real estate capital, the increasing costs of intra-urban mobility that is pushing urban residents back to central areas, the historically central concentration of public goods, strategic public discourses of heritage protection and commercial reinvigoration in inner areas, and a considerable public investment in metro and traffic infrastructure. Importantly, however, during the 1990s, the state-led issuing of vouchers aimed at middle-income consumers also helped to boost this market (Contreras, 2011). In the context of neoliberal policy prescription and urban entrepreneurial "innovation" (see López-Morales, Gasic, & Meza, 2012), inner *comunas* responded to this movement "back to the city" by implementing strategic policies allowing private capture of vast rent gaps. Some of these policies are analyzed later in this article.

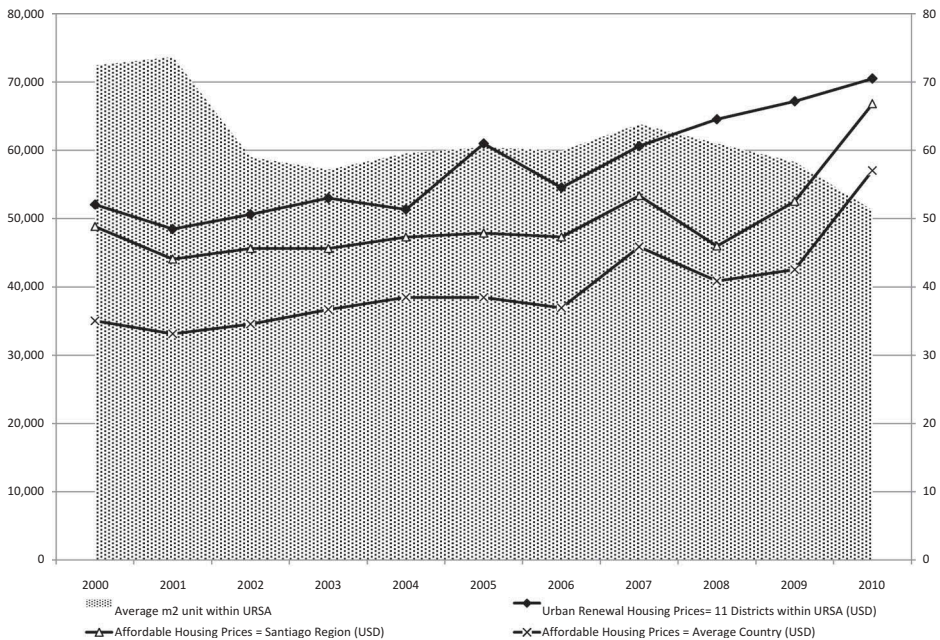
Inner Santiago's real estate market has grown at an unprecedented speed and scale. Between 1990 and 2008, the share of the 11 inner *comunas* of Santiago in terms of newly constructed units in the metropolitan region increased from 8% to 44%, while those in the (traditionally low-income) periphery decreased from 81% to 38.5%



**Figure 1.** Square meters of new residences per year (according to permits issued) between 1990 and 2008, compared by metropolitan zones. Source: The author's own elaboration based on the Ministry of Housing and Urbanism Observatory: [www.observatoriourbano.cl](http://www.observatoriourbano.cl).

(Figure 1). From 2000 to 2008, average sales prices (real-value, taking into account inflation) in the 11 inner *comunas* saw a sharp 37% increase, whilst the average size of residential units produced was reduced by around 40% (see Figure 2). The result is that Santiago's private housing market in inner urban areas produces new apartments that are increasingly more expensive but smaller. Therefore, selling prices per unit have remained relatively steady, which has been to the detriment of lower-income households often comprised of two or more families residing together. At the same time, for the last 10 years, social housing has increasingly been driven towards a number of distant satellite enclaves (to a radius of more than 20 km from the city center) beyond the metropolitan limit, where land is still sufficiently cheap but transportation options are poor. This type of redevelopment and the exclusionary displacement it produces resemble what Davidson and Lees (2005, 2010) have identified as new-build gentrification in London and other places of the Global North, although high-rise redevelopments in Santiago are located amidst densely inhabited neighborhoods and not in vacant or derelict land.

Contreras (2011) shows the new households in the inner *comunas* to be considerably smaller, younger households (between 1992 and 2002, there was a decrease in the size of the average household from 3.5 to 2.8 in these areas), with noticeably higher purchasing power. These groups are found to actively choose residential location in the denser central spaces of the city with its multiple amenities rather than in the traditional middle-income suburbs. These groups belong to the highest second- and third-income quintiles of the population. Some analysts, including Contreras (2011) and Contrucci (2011), present this residential high-rise market as offering an opportunity for "social



**Figure 2.** Increasing sale prices with decreasing floor size of new apartments supplied in the 11 inner *comunas* of Santiago between 2000 and 2010. Source: The author's own elaboration based on the Ministry of Housing and Urbanism Housing Observatory: [www.observatoriohabitacional.cl](http://www.observatoriohabitacional.cl).

mixing” in inner areas. However, they pay very little attention to the effects on the previous, lower-income populations residing in these neighborhoods before and after the redevelopment has occurred. They do not consider the social displacement of the local inhabitants from these areas due to the rapid and sometimes aggressive acquisition of land by high-rise redevelopers.

The issues of land, property and ground rent are very important, as there is a huge difference in the profit margins derived from the ground rent obtained by the two types of agents that have intervened in this condo construction. The first agent is the developer who first has to become a new land owner by purchasing several plots of land and then merging those plots into a bigger one in order to gain a higher Floor Area Ratio, or FAR. The FAR is the total square feet of a building divided by the total square feet of the plot of land it is on. The higher the FAR, the more units the project is allowed to have, and thus the more units the developer is allowed to sell or rent out. Once the smaller original plots have been obtained and merged together into a larger piece of property, the developer proceeds to build at the highest land use-intensity permitted by local building codes in order to capture as much of the ground rent potentially contained in that land as possible. This means the potential ground rent goes up as a result of rezoning the land for higher FARs, which can only be realized by demolishing existing housing and acquiring several adjacent plots for redevelopment. Conversely, the second agent is the existing land owner (53% of the households in the Santiago-Centro area, according to the survey shown below) who sells the smaller land plots to the developer and uses the cash to find similar replacement accommodations.

The lower level of ground rent captured by original residents is called here capitalized ground rent 1 (CGR-1). The developers' capture of higher ground rent is called capitalized ground rent 2 (CGR-2).

This analysis rests on the rent gap theory proposed by Smith (1979, 1996) and (Clark, 1988, 1995) and its adaptation to the Chilean context by López-Morales (2010, 2011, 2013a). But a problem emerges when that portion of rent-gap-derived value that is paid to the original small-plot landowners for their land is not large enough for them to find replacement accommodation in the area. The sale-price set for their land does not come from competitive bidding, but a sort of monopsony (where one buyer is faced with several sellers) that reduces the cash value for their land and limits their post-occupancy options. Original small-plot landowners lack bargaining power because developers acquire land plots in advance in order to avoid the entry of other competitors and, therefore, can exert extra pressure on the remaining landowners in the same block (this can be called “blockbusting” for the reasons explained below). The process is made worse by the fact that the original resident households range from middle- to lower-income, and there is a considerable presence of extremely low-income and immigrant tenants in roughly 10% of the existing, non-gentrified properties. Essentially, a process of “accumulation by dispossession” operates in Santiago's inner area through the commodification and privatization of urban land and the forced expulsion of an important segment of the original residents (López-Morales, 2011, 2013a). Significantly, these expelled residents lose their central location.

The following section explains the methodology used in this study. Afterwards, I move on to discuss the hypothesis, drawing on the rent gap thesis and theories of displacement. Issues related to state-led subsidies and local-government FAR procedures allowing for the development of property-led urban renewal are taken up next. Finally, I discuss the results obtained from analyzing housing relocation for original residents in regards to their ability to locate new accommodation in the same area.

## Methodology

This analysis consists of the quantitative measurement of land values, property cadastral values, and a survey conducted in 2012 with original property owners and tenants (see about this survey in more specific terms in López-Morales, Arriagada, Gasic, & Meza, 2015). The first goal of the data analysis is to calculate the amount of CGR-1, which is the ground rent value obtained by the owners of the 262 land plots that were sold to developers, merged, and redeveloped into 65 new high-rise redevelopment projects between 2000 and 2012 (with a rate of 4.03 original plots per new built condo). The original land plots selected were smaller than 500 m<sup>2</sup>, as the larger ones were less likely to host residential land use. The data was collected from the *Conservador de Bienes Raíces de Santiago* (Santiago Property Registry Data-Base—SPRDB hereafter).

CGR-2 is the ground rent value extracted after redevelopment (similar but not equal to the maximum “potential ground rent”; see López-Morales, 2011). This figure is derived by calculating the total sales from new buildings, minus land costs paid to the original owners, minus all construction costs, and demolition, selling, and advertising costs.<sup>5</sup> Construction costs considered here are based on the official list of costs regularly advertised by the Ministry of Housing and Planning (MINVU), and these



values were cross-checked through five semi-structured interviews with developers. Selling and advertising costs are quite standard, and according to the interviewees, these costs did not surpass 5% of the total construction costs. Usually, large and very large real estate firms—four of which hold 53% of the market in the Santiago-Centro *comuna*—integrate the real estate and construction phases of production and conduct several projects at the same time. Therefore, demolition costs and interest costs for the capital invested in land already bought (and sometimes held undeveloped for a maximum of 2 years) are insignificant, especially when compared with the total volume of real estate capital involved.

A survey of 195 original households who lived in the still non-redeveloped properties inside the case study area was also conducted to survey the number of households inhabiting each land plot, their status as owners or tenants, each household's estimated monthly income, whether realtors had already acquired the surveyed property or adjacent ones within the block, preferences for relocation, whether owners wanted to sell their land to the market, and perceptions of the environmental effects from the high-rise construction. Based on the CGR-1 data already obtained, it is possible to estimate the CGR-1 achievable by every landowner depending on the floor size of their land plot. Each surveyed property was analyzed using GIS to obtain the respective land plot size area, using the land plot division layout provided by the corresponding *comuna* database.

It is also possible to obtain a “rate of relocation”, which measures the affordability of relocation in new apartments within the same neighborhood for every household surveyed. This is the ratio between the average CGR-1 and the sales price of a new apartment required to relocate every surveyed household in the same zone. It is assumed here that owner-residents would use the whole ground rent amount obtained in purchasing a new property without the need to ask for loans or any kind of external economic support. Depending on the size of the surveyed household, an average new apartment's sales price was estimated by typology, i.e., 1-, 2-, and 3-bedroom, using a specialized website: [www.portalinmobiliario.com](http://www.portalinmobiliario.com).

### ***The new-build gentrification hypothesis***

In this article, I argue that the rent gap theory (Clark, 1988, 1995, 2005; Smith, 1979, 1996) helps assess the political economy of large-scale, property-led urban redevelopment as a problem of uneven extraction, and distribution of ground rent and its surplus value. While there was considerable debate in the 1990s about whether or not the rent gap was the cause of gentrification (see Lees, Slater, & Wyly, 2008, for a summary), more recently Slater (2006) has urged researchers to look again at gentrification's most crucial socio-spatial effects. Despite that call, however, the rent gap has seldom been used to reinvigorate the study of the effects of gentrification. Lees (2014b) discusses a state-induced rent gap in London in relation to council housing, but does not undertake quantitative analysis of it. Shin (2009a) examined the rent gap increase in Seoul's dilapidated neighborhoods through deliberate private-led devaluation and planning restrictions; but yet there has not been any attempt to address the seemingly crucial question of who really captures the resultant rent gap. This article underlines earlier claims by Neil Smith that rent gap theory can be used not only to quantify and

effectively predict when and where the redevelopment process will occur, but also to substantiate the claim that capitalized ground rent has a double-sided nature; namely: (1) that side capitalized by the land owner (who can often be a low-income resident) and (2) another side, which is much larger, and capitalized on by the developer.

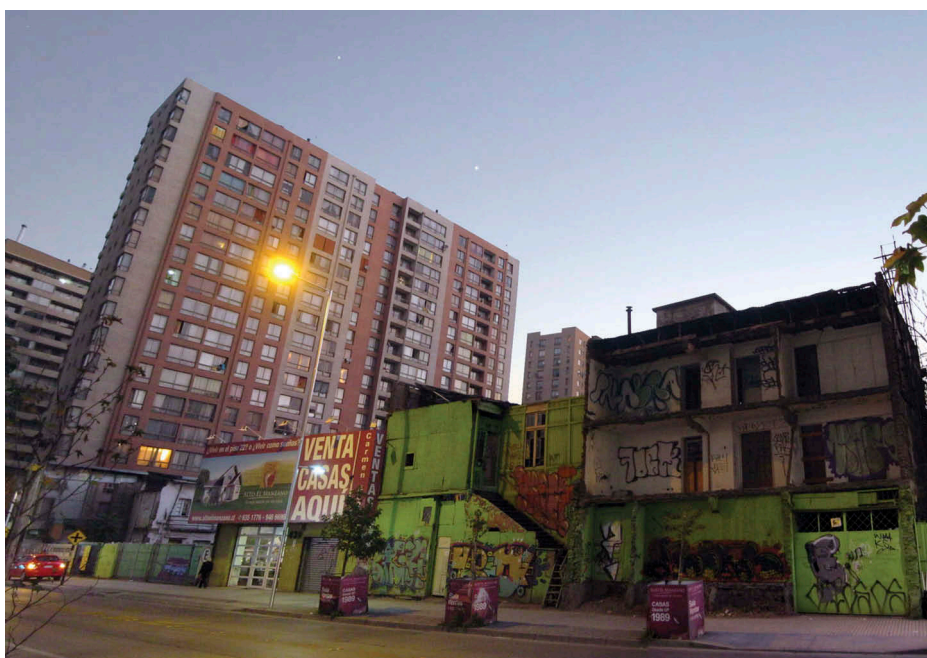
López-Morales (2010, 2011) has shown that landowners and developers who accumulate increased ground rents are not always the same agents, because in contexts like Santiago, around 70% of the residents own the small piece of land they live on, and the most efficient/profitable use can only be achieved by a reduced number of actors who possess the technical means of intensive high-rise construction. By contrast, those households who receive a lower relative proportion of ground rent when they sell the land they inhabit to these high-rise developers—especially when there is more than one family on the plot—are doomed to be excluded from the housing market as they cannot afford to purchase any renovated high-rise residence. It is important to note that in Chile, it is not customary for both the buyer and the seller to be represented by a professional real estate agent, and this creates fertile ground for unequal negotiation between developers and small landowners. In a similar way, Shin (2009a) details the accumulation of land by private developers in Asian cities. Manuel Aalbers (2011) has called this process “social exclusion”, a result of the moment when predatory financial markets enter neighborhoods; however, it is also a process of “spatial exclusion”.

One interesting point about the Marxian approach to gentrification (see Lees et al., 2008, Chapter 2 for a summary) is that although it focuses on ground rent as a useful method for studying gentrification, it does not focus upon ‘differential land rent’ as neoclassical theories do—the assumption that different combinations of location and amenities exist, and thus differential ground rents will be extracted (Evans, 2004). Instead, the Marxian approach focuses on ‘class-monopoly ground rent’ as a politically produced power disparity that extracts and monopolizes rent as an outcome of the political-economic geography of the local social-political environment (Harvey, 2006). Linking gentrification with the local geography of power relations is crucial for at least one other reason: understanding the growing capacity of the extremely powerful real estate and construction sector in Latin American economies. Together, real estate and construction interests in Chile hold 13% of the national GDP, along with the ability to permeate the nation-state and *comunas* and advocate for a series of entrepreneurial policy prescriptions and implementations. Something similar can be seen in the development of both Mexico City’s and Buenos Aires’ central areas (see Delgado, 2010; Herzer, 2008). As a result, nation states heavily subsidize real estate markets, while local state governments move towards implementing increased ‘maximum coefficients of land use’ (or FAR). In fact, land use rezoning and FARs have been identified in different regions the world over as the main drivers of both land rent increases and their uneven social distribution (Sandroni, 2011; Shin, 2009a, 2009b). Recently, López-Morales et al. (2012) have critically examined the role of national-level policies in Chile specifically, regarding the physical transformation of neighborhoods through the popular policy prescription of increased FARs. Finally, Lees also affirms that aspects of state power, the unequal absorption of the rent gap, and its connection to displacement are three critical aspects that should inform a ‘global’ geographical imagination and comparative theorization about gentrification (Lees, 2012, 2014a).



### **State subsidies and the establishment of FAR**

By the late 1980s, several analysts confirmed that while Santiago's inner *comunas* were full of urban advantages due to their centrality (i.e. concentration of good-quality public schools, more public spaces, better and denser connective networks, etc.), a decreasing number of the area's original residents were able to take advantage of those opportunities (Valenzuela, 2003). In 1991, the Chilean national MINVU launched the Urban Renewal Subsidy (URS), a fixed amount equivalent to 10% of the average cost of new housing (currently, US\$ 90,000), payable to buyers if they were to be located within a 8,500-hectare inner zone. This subsidy was set up as part of a larger and well-advertised state strategy of "repopulation", as the inner *comunas* had experienced depopulation at rates between -5% and -15% for the three previous decades (Arriagada & Simioni, 2001). The URS subsidy persuaded then reluctant developers and builders to invest in specific inner neighborhoods. This subsidy helped to spur the housing demand that a few years later led to the boom in the market for high-rise condos. It also got young, middle-income households to consider the central and inner areas as cost-effective residential alternatives for housing accommodation. Other policies were also successful in bringing middle-income residents (back) into the central city, willing to trade off the urban amenities that come with higher densities, e.g., privately financed shopping malls and underground parking lots and state-financed Metro line extensions (Lines 2 and 5), the new Costanera Norte and Autopista Central motorways, and the widening of several local streets to facilitate the implementation of the Transantiago transport system by using state-held compulsory purchase powers (Contreras, 2011; see Figure 3 for an example of this).



**Figure 3.** View of a Santiago central neighborhood changing because of high-rise renewal and the transport-oriented widening of roads by the state. Source: Daniel Meza © 2016.

In quantitative terms, setting up this real estate market was very much a political success for the Chilean state. According to Arriagada, Moreno, and Cartier (2007), annual new housing production in Santiago's inner *comunas* in 1995 barely surpassed 1,500 residential units, but by 2005, that number had grown 10 times. Furthermore, for the 18-year period between 1990 and 2008, around 230,000 new residential units were produced in the 11 inner *comunas*. By 2006, for the first time, housing construction in those areas represented 57% of the whole region of Santiago's housing production, and that share is still increasing today.

However, the expected *positive* demographic impacts of Santiago's new high-rise housing market were at least two decades in the making after subsidy implementation. The 2002 National Census showed that for the 1992–2002 period, the 11 inner *comunas* were still disappointingly losing residential population at an average of 11%. After 12 years of booming real estate market activity in the inner *comunas*, this continued depopulation was very difficult to explain. The results indicated that although the residential real estate was attracting new people to the inner metropolitan areas, the size of those households and the number of people being displaced by the new development was also of considerable size. Interestingly, since these results were published, the Ministry of Housing and Planning has stopped using terms like “repopulation strategy” to describe its downtown redevelopment efforts. Further, the crucial 2012 National Census data needed to analyze new trends of repopulation was withdrawn in 2013 by the national government because of scandalous methodological pitfalls discovered shortly after the census was conducted. At the time of writing (2014), there is no reliable updated demographic or housing census data available in the country.

During the 2000s, the share of housing sales benefitting from the middle class-oriented URS gradually fell, and today it covers only about 20% of total housing purchases. However, at the same time, banks and other lenders have also increasingly offered more attractive mortgage conditions and flexible interest rates. These days though, what most attracts, supports, and “anchors” property-led high-rise housing activity to the inner city are (apart from land use permits) the FARs fixed by the local authority and established in the *comuna*-level master plans (López-Morales et al., 2012; see also Shin (2009a) about FAR increase and booming redevelopment projects in Seoul). Every *comuna* independently establishes its FAR and therefore competes with the rest of the *comunas* by “offering” the “highest and best use” that derives from the floor area ratio defined in its construction codes.

*Comunas* then have become intra-urban suppliers of land for intensive, high-rise-based capital accumulation. The city of Santiago does not have a coordinating metropolitan authority, and its 34 *comunas* are politically independent regarding these and other matters. From 1990 onwards, the 11 inner *comunas* began to modify their local-level master plans, relaxing their building codes and increasing FARs in certain strategically located zones. Some *comunas* established a maximum permitted FAR in their local-level master plans, but most simply regulated the buildable area by setting maximum allowed heights, land occupation indices, or even by applying complicated algorithms that increased the maximum permitted shadow cast percentage (López-Morales et al., 2012). This has also been accompanied by national-level regulations—contained in the National Urban Development and Construction Law—which

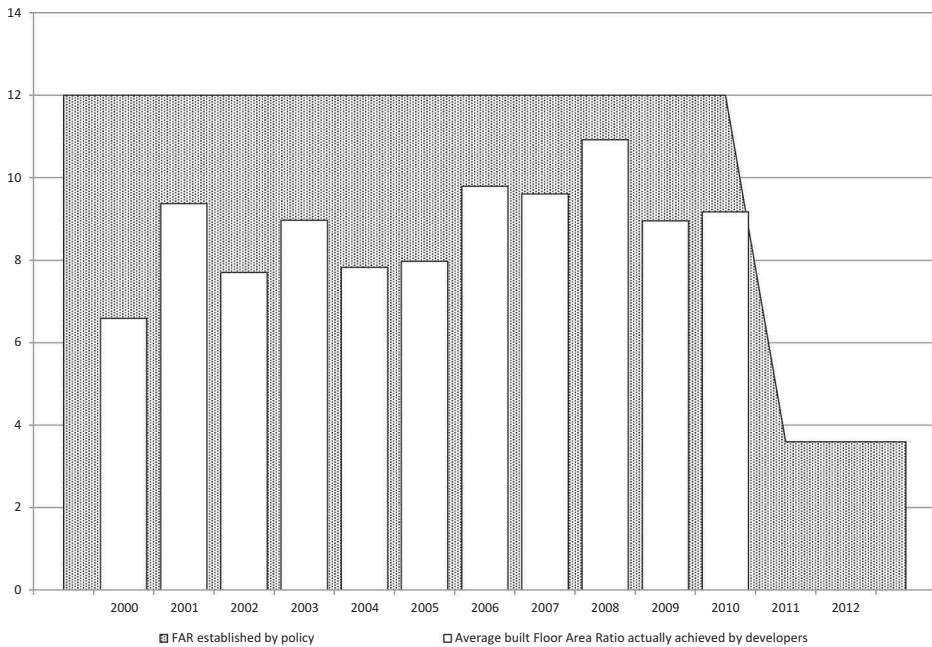
considerably support the market for high-rise based accumulation via tax exemptions in the case of land-plot fusion and increased FARs when a series of special standards are met by the developer, i.e. large-scale operations on large-scale land plots (called *conjuntos armónicos*). Since FARs are now so incredibly high, cases of redevelopers illegally surpassing the permitted volume are almost nonexistent.

As a general rule, it seems that after a few years of land exploitation and only when the rent gap in a certain area has been fully captured and internalized (and this area no longer offers cheap land to the market), *comuna* governments tighten the master plan building codes by reducing the FAR. This can be seen as an ex-post regulation aimed to tackle the extreme densification and loss of environmental quality experienced in those neighborhoods (López-Morales et al., 2015). In a few other cases, it has been the activism exerted by local neighbors that has put pressure on municipal governments to bring the FAR down (López-Morales, 2013b). However it happens once the value of the Floor Area Ratio has again been decreased, real estate capital jumps to other neighborhoods or *comunas*. The evidence shows that, eventually, the success of one *comuna* in creating the conditions for a real estate boom in its territory by increasing the FAR may come at the expense of reducing the redevelopment chances in other competing *comunas* (López-Morales et al., 2012).

The 1989 Santiago-Centro *comuna* master plan established a policy, allowing developers to achieve a FAR of 12. This means the total construction volume (in square meters) to be built could be 12 times bigger than the size of the land plot where the building lay. Figure 4 shows how, from 2000 to 2006, the average FAR *actually* achieved by developers did start to increase, but that from 2006 to 2011, the average FAR in fact jumped, reaching an astonishing value of 11 in 2008,<sup>6</sup> which is almost twice the number seen in 2000. The long-lasting increase in the FAR has created a number of problems related to hyper-densification, namely larger shadow casts from high buildings, traffic and sewage congestion, loss of water pressure, and loss of environmental quality; all experienced by the people inhabiting these projects.<sup>7</sup> In 2011, following much social concern and growing neighborhood activism, the Santiago *comuna* finally reduced the FAR allowed in the Santa Isabel neighborhood down to around 4, but real estate firms' interest in acquiring land had already switched to the adjacent southern and northern neighborhoods of the Santiago-Centro *comuna*. It is clear, then, that *comunas'* master plans play a central role in defining when and where the real estate market booms.

### ***Residential redevelopment in Santiago: A back to the city movement by capital, not people***

Much inspired by Neil Smith's (1979) famous title, in this section, I substantiate the thesis that inner Santiago's redevelopment is in fact driven by profit-seeking private capital and that this process also reflects a type of class-monopoly rent gap capture. After the 1997–2001 so-called Asian financial crisis, the number of property companies in Santiago decreased as the surviving firms expanded and absorbed formerly dominant—now smaller—construction firms. The analysis conducted here of private real estate firms shows that by 2010, within the 11 inner *comunas*, 10 large-scale real estate firms shared 55% of the square meters produced in the high-rise urban renewal, whilst 47 firms held the remaining 45%. But in the Santiago-Centro *comuna*/Santa Isabel area



**Figure 4.** Santiago-Centro *comuna*'s FAR established by policy (gray area) and average built Floor Area Ratio actually achieved by developers per year (columns), 2000–2010. Source: Santiago-Centro Master Plan construction codes and Santiago Property Registry Data Bank (SPRDB).

alone, four very large-scale firms controlled 53% of the total housing production, namely the Absal, Paz, Euro, and RVC conglomerates.

Besides the oligopolistic character of this market, what makes this a case of large-scale gentrification is its unequal form of rent gap capture and ground rent value distribution. Theoretically speaking, as land price values tend to increase, the demand for land should also increase, pushing land prices up, and therefore benefiting small landowners. Drawing on these neoclassical assumptions, the Chilean state believes that the increase in land prices occurring in inner-urban areas is something quite positive and desirable as this is the outcome of an increased housing demand, which neoclassical theory assumes to benefit small landowners (Arriagada et al., 2007). But the problem has to do with the highly differentiated margins of ground rent actually captured between tenants and owner-residents—who often capture a lowered CGR-1—and developers, who capture a considerably higher (FAR policy-increased) CGR-2.

The ground rent captured in Santiago-Centro by developers after redevelopment is on average 7 times the value obtained by landowners before redevelopment; but this difference can extend up to 15 times the amount accumulated by small landowners. Figure 5 is an example that shows the spatial distribution of this relationship for 41 projects built in the area. Red columns express profits for redevelopers (CGR-2), and blue columns show the profit made by the land sellers (CGR-1). Wherever there is a small difference, those are projects built in the early 2000s.

Between 2000 and 2008, the (inflation-adjusted) recorded land prices in the inner area increased an astonishing 230% on average. Yet as previously mentioned, officially

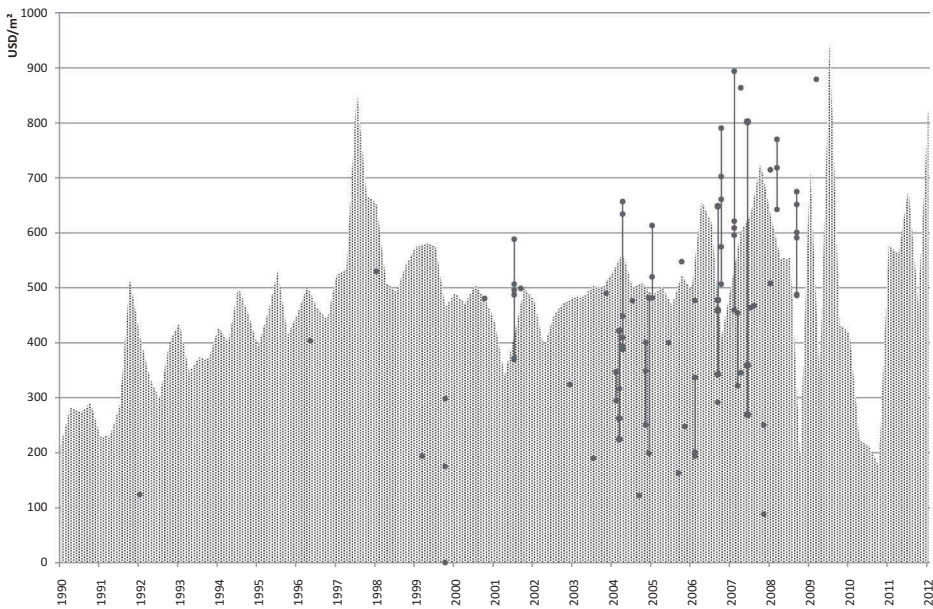




**Figure 5.** Rent gap capture disparity between real estate firms (red) and land owners after selling the land (green). Source: The author's own elaboration based on SPRDB.

recorded higher average land prices do not necessarily correlate with higher land prices actually paid to owner-residents. These are in fact usually lower than the average market land price (this is CGR-1). **Figure 6** compares the uneven land prices actually paid by developers to large and small landowners (black dots) for each of the buildings developed (black thin vertical lines). On average, four land plots are required to build any new building; this means that when developers buy land plots for every project, they have to compensate an average of four landowners. What they usually do is buy these land plots and merge them together into a single bigger one, in an operation known as “land fusion”. But developers do this in a very uneven way. Some landowners, usually the first ones to sell, receive the higher amount of ground rent, and others, usually the ones who sell in second or third place, receive considerably less and a definitively lower ground rent that is not sufficient to relocate to similar good conditions somewhere else, as will be seen in the next section.

This analysis shows that in the Santiago-Centro/Santa Isabel area, 63% of the land plots purchased by firms for redevelopment had a residential use. From these, for the same building operations, extremely high differences (of up to 591%) were recorded between the lowest and highest CGR-1 (i.e., the land price paid by the redeveloper to



**Figure 6.** Average market prices recorded per year (area) versus land prices actually paid to landowners (CGR-1, black dots) for each redevelopment (black vertical lines). Source: The author's own elaboration.

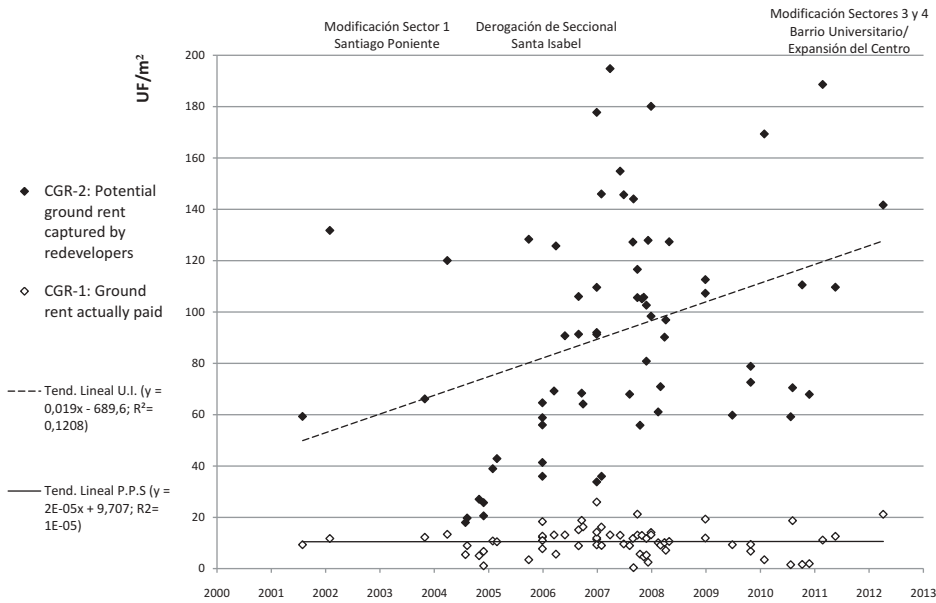
the owner). The relation here between the best and worse CGR-1 payment is 1,320%. On average, 62% of land owners received a CGR-1 lower than what the average market land price level suggested they should receive (gray line in Figure 6).

Between 2000 and 2010, the highest CGR-1 payment was 25 UF<sup>8</sup>/m<sup>2</sup> (around 1,125 US\$ per square meter) recorded in 2007, whilst the lowest one was 3.4 UF/m<sup>2</sup> (around 153 US\$/m<sup>2</sup>). Since the size of the average original residential land plot (i.e., where people lived before renovation) is 275 m<sup>2</sup> and the average CGR-1 paid is 14.9 UF/m<sup>2</sup>, a gross estimation of the owners' revenue is at best UF 4,098. This value seems quite convenient for a single owner-resident, or for two households sharing the same property, but is of very little value for landowners who receive a lower CGR-1, and low-income tenants and multi-family occupants, all of whom are subject to direct displacement.

The problem is that, according to the survey conducted on residents in 195 non-renovated land plots located amidst the area of most intensive redevelopment, tenancy and multi-family occupation was found in 47% of the cases, which splits into two, or more, the "social" value of the CGR-1 paid to owners and reduces their chances to find replacement accommodation in the same *comuna* nearly to zero. Figure 7 shows that for projects built between 2000 and 2012, land prices paid to small landowners (CGR-1) are stable at an average price of 10 UF/m<sup>2</sup>. In contrast, average ground rent absorbed by real estate developers (CGR-2) grew from 35 UF/m<sup>2</sup> to more than 110 UF/m<sup>2</sup>.

One important issue at stake is understanding how developers manage to keep paying low prices for the land they purchase. In that sense, the following features have been detected in connection with processes of land and property devaluation:





**Figure 7.** CGR-1 and CGR-2 recorded for projects built between 2000 and 2012 with tendency lines. Source: The author's own elaboration.

- (1) *Monopsonistic buying power*: Highly correlated with the trends of the corporatized real estate market, the results indicate that for the case of Santiago-Centro, the four very large-scale developers mentioned earlier dominate a 53% market share. The disparity in the distribution of power and market information between the land buyer and the land seller matters. The survey indicated that more than 80% of owners did not know the market-level price to expect, and this expected price was usually 50% lower than the average market land price. Furthermore, according to a report recently published by two Inter-American Development Bank (IDB) advisors, there is tacit collusion among developers at the moment of defining new housing prices (Lefort & Vargas, 2011). Very often, too, land acquisition is conducted prior to the rezoning actions led by the *comuna*.
- (2) *Blockbusting*: This was identified as a common practice by real estate firms, specifically buying one or two pieces of land in a block previously targeted for redevelopment (colloquially speaking, *pinchar la manzana*), which immediately reduced the chances of different real estate firms participating in a possible negotiation for the acquisition of that land, and put extra pressure on the potentially successive seller at the moment of negotiating the price, when that seller would usually receive a lower price. Thirty-one percent of the 195 households surveyed revealed that at least one land plot inside the blocks where they were located had been bought by a developer. These corporate real estate practices are equivalent to what has been defined as “blockbusting” in the North American gentrification literature,<sup>9</sup> as they play the same function: to materially or symbolically reduce the chances of the existing inhabitants staying put in a neighborhood prone to redevelopment, creating an artificially uneven power relation between the gentrifier and the potentially

gentrified party who sees that their property could be dramatically devalued. In addition, it happens that the original owner feels a rush to sell his/her land plot before it becomes more devalued, for the reasons explained next.

- (3) *Construction-led deterioration*: Results from the survey showed that areas surrounding new-build condos very often experienced the disturbing and deteriorating effects of high-rise construction in the low-rise, century-old physical fabric that characterizes the Santa Isabel area. The problems most frequently mentioned by respondents were the “worsened sun-lighting” (76%), “worsened security in public spaces” (70%), “visual blockings” (66%), “road congestion” (61%) and “shadow cast” (60%); these were considered the direct consequences of high-rise urban renewal. This is an environmental type of displacement pressure.
- (4) *Redlining*: In the Santa Isabel area, from 1995 to 2003, the Santiago *comuna* set up a policy that discouraged small-scale redevelopment by overcharging 200% of normal land taxes (*contribuciones*) to any building under four stories (López Morales, Meza & Gasic, 2014).
- (5) *Abandonment and deliberate deterioration*: Cases of total abandonment were extremely rare, and even in the most advanced cases of dilapidation (Figure 3), we observed at least one housekeeper living in (and looking after) the property, usually hired by the new landowner, who often is the developer. However, construction-led deterioration of the surrounding areas was very common and derived from the disturbing and deteriorating effects of high-rise construction on the usually century-old physical fabric that characterizes the Santa Isabel area.

### ***Effects on the social fabric: a case of displacement and exclusion***

A decent, cheaper housing alternative in a different, less central area is a loss to original residents and is considered displacement. The survey of 195 potentially to-be-renovated properties conducted in the Santiago-Centro/Santa Isabel area showed that 53% (103 cases) were occupied by owner-residents, 40% occupied by low-income tenants, and 7% were in multi-family household occupancy by immigrants and/or very-low income inhabitants. An average of 20% of housing overcrowding was found in the cases observed, and this was due to two or more households sharing a dwelling (*allegamiento*). A rate of two or more households sharing a residence means a CGR-1 divided by more than one proprietor, which leads to an even lower potential capacity to “stay put” by purchasing replacement accommodation in the same neighborhood, hence “exclusionary displacement”.

When the properties where these respondents live were demolished for renovation, low-income tenants and multi-family occupants (comprising 47% of the respondents) could not easily find replacement accommodation in the housing market and often had to be relocated to a different and distant place. According to Chilean law, both groups are not eligible for any compensation from the state and/or the landowner when the property they occupy is sold out, only a two to six-month in advance eviction notice. The remaining 53% of owner-residents still present big problems with regards to estimating how probable the relocation of these inhabitants will be in the same area or at least the same *comuna* where they currently live.

**Table 1.** Flats supplied in the Santiago-Centro/Santa Isabel area, 2012. Source: the author's own calculation based on real estate registry data.

	1BD Flats	2BD Flats	3BD Flats
Number of units produced	4,271	4,722	1,024
Percentage	43%	47%	10%
Average sales price of new flats (UF)	1,145	1,678	2,248
Average size of new flats (m <sup>2</sup> )	29.15	44.64	61.66
Price UF/m <sup>2</sup>	39.3	37.6	36.5

From 2000 to 2008, the average new housing sale prices (real value considering inflation) in the inner *comunas* saw a sharp increase of about 37%, while the average size of residential units produced was reduced by around 40%, as shown in Figure 2. That is, the inner areas of Santiago's private housing market produced more expensive and increasingly smaller residential units; it also excluded the production of lower-income housing, leading to the transformation of the social geography of the metropolis. In this sense, a specific disaggregated analysis on the Santiago-Centro/Santa Isabel area shows that in 2012, 90% of the new dwellings produced (in high-storied buildings) were 1- or 2-bedroom flats, whose size is less than 45 square meters (see Table 1). This means that 90% of the flats supplied are not large enough for extended households (more than one head of family inside the same household), which were present in 20% of the cases surveyed in the Santiago-Centro area. The survey conducted showed that the average household size in this area was 5.1, above the national average which is 2.9.

It was estimated that three land prices (high, medium, and low) were potentially payable by developers to the remaining 53% of owner-residents. These potential prices were derived from the average value of each of the three terciles observed in the prices actually paid in the Santiago-Centro/Santa Isabel area between 2000 and 2010, as recorded in the SPRDB. The highest potential land price (top average) that could probably be paid to a single seller (usually the first one that sells land during the phase of plot-fusion as part of the redevelopment operation) was US\$975.66/m<sup>2</sup>. However, were all 103 owner-residents surveyed to receive this high land price (CGR-1), 21% of these residents would still not receive enough ground rent to meet their housing needs, and would hence be excluded from the market of new residential units in the area. The medium potential land price (medium average) was found to be US\$579.14; meaning that 50% of local inhabitants would be excluded from buying the existing new apartments for sale in the area. The lowest potential land price we found was US\$343.62, which means 75% local inhabitants are excluded from this area of new privately led residential supply.

Therefore, it can be confidently stated that 50% of the 103 owner-residents in the area are unable to afford replacement accommodation within the same area or nearby, in addition to the remaining 47% of non-owner-residents who are subject to direct displacement. The gentrifying effects of this market seem evident among residents that hold smaller, lower-paid pieces of land. Questions about the loss of living space for those who could relocate in the smaller apartments supplied in the area is also a relevant question but beyond the scope of this article.

In an average scenario, 50% of owner-residents—usually those inhabiting the smaller plots and sharing residence with one or several additional households (plus a higher

number of tenants)—cannot find replacement accommodation *in situ*, worsening their situation and pushing them towards peripheral, cheaper *comunas*. These cases are the ones who receive the lowest CGR-1 because they sold a land plot which was too small or they rushed (or waited too long) and could not sell at a good price. The trend of devaluation of the ground rent generated by a monopsonistic market demand for urban renewal in Santiago's inner area produces displacement in at least 50% of the cases. With ownership of land as the only economically relevant asset of inner *comunas'* households, in more than half of the cases analyzed, the land price paid in a real estate transaction does not equate to a socially fair value that enables relocation to similar quality conditions, centrality, and location. In general, these are households that are contributing to the growing number of migrants located on the outskirts of the metropolis, as shown in [Figure 1](#). In contrast, [Figure 8](#) shows the very common view of a property whose owner did not sell to developers and now is completely surrounded by new high-storey condos. And since tenants and multi-family occupants either do not have access to, or have a smaller proportion of, the ground rent obtained by selling their land to use as down payment for buying a new residence, it can be assumed the situation is worse for these latter actors.

### **Conclusion: the contingencies and regularities of new-build gentrification in Chile**

The residential urban renewal market is currently the dominant mode of spatial restructuring in Santiago. The data and analysis presented here offer a picture of the nature of the economic stakes and social agents involved in a systematically unequal appropriation of ground rent by large developer corporations and small landowners, as the latter are placed at the mercy of the former in following state and local policies of real estate regulation. Neoclassical economics do not apply here, as the greater the demand for land “available” for redevelopment is, the lower the ground rent achieved by land suppliers. There is a growing disparity between the ground rent captured by landowners and developers, respectively. The metropolitan inner area is the site of an exclusionary housing market that simultaneously produces increasing prices for new residents while decreasing floor sizes and living space. What are mostly produced are one- and two-bedroom flats. The market for urban renewal increases the costs of the selling price and reduces the sizes offered, which does not allow the inclusion of the two lowest income quintiles of households. This is, therefore, a market that not only displaces local residents outwards towards the urban periphery, but that also excludes people inwards, i.e., it does not allow lower socioeconomic groups to enter the renewed urban space, thus increasing the traditional patterns of urban segregation existing within the city.

The state is not absent and plays a very necessary role in underpinning this market. *Comunas* successively change their FARs in order to attract, relocate, and even restrict the real estate market in their areas. Their management logic fragments the territory into several pieces in order to achieve a competitive position in the market of private urban renewal. This paper offers a critical discussion on the FARs established independently by *comunas*, and this should contribute to a national debate on land value capture or the way the state can (and should) charge exactions to developers for their



**Figure 8.** A low-rise dwelling surrounded by high-storey condos built between 2000 and 2012 in the Santa Isabel area. Source: Daniel Meza © 2016.

almost monopolistic accumulation of high CGR-2; in order to redistribute those exactions to, for instance, affordable nonprofit low-income housing in central areas. A series of examples of this kind of policy have been successfully applied in Latin America (Smolka, 2013).

Eric Clark's (2005) simple definition of gentrification used here sees it as a class-motivated change of land-users. Users are those with enough power to either transform



the space which they live in or where other people live. In the case of Santiago, gentrifiers might be the new higher-income residents (that have greater purchasing power than at least 50% local owner-residents plus tenants and multi-family occupants) who buy the new-build apartments and that, in the case of Chile, usually depend on a bank loan or even receive a state subsidy. But it is also justifiable to assert that the most predominant ‘gentrifiers’ in Chile are the large-scale developers buying up land (and the houses that are on them) with the goal of redeveloping the land—rather than milking the property or simply withdrawing completely, because taxes are higher than rents, as happens in the classical Global North narratives of rent gap formation. Rather, in Chile, real estate agents deploy their economic power to transform the social geography of the city, creating large amounts of displacement. This article provides evidence of the extensive economic and political power that these few agents have to transform the physical and social fabric of inner areas. For this latter reason, a central point here is that massive high-rise redevelopment in the inner *comunas* is quintessentially a process of class-monopoly absorption of the ground rent by private, large-scale real estate firms, and this process generates high enough levels of displacement of lower-income residents (owners and tenants) to be deemed gentrification in an extended usage of the term.

So far, Latin American urban theory has been relatively “blind” to these radical urban changes, but the gentrification lens, and especially rent gap theory, is a powerful vehicle through which to understand the political strife, and the very contradictory forces, that are reshaping of the central areas of Latin American cities, here specifically Santiago. Gentrification theory copes well with the socially and politically “relational” nature of this current transformation. However, it is also important to note that the new-build gentrification of Santiago (although similar to what was accounted by Davidson and Lees (2005, 2010) looks physically different and implies a geographical phenomenon different from what has been classically addressed as agent-led gentrification in cities in the Global North, in scale, type of agents involved, and their practices.

Gentrification in Santiago *comuna* is characterized by five distinctive factors. The first is the critical functions played by the state in subsidizing upper-income demand, via the issuing of vouchers that cover up to 10% of the sale price of the new apartments and regulating the rent gap formation by amplifying the Floor Area Ratio contained in their construction codes. This is done by the state in a very entrepreneurial way, via land use rezoning and the intentional increasing of FARs in tandem with market needs. The second factor is the significant disparity in capturing ground rent between original-owners and redevelopers due to the various strategies and practices used by a reduced number of dominant large-scale redevelopers. Third, demand-led gentrification and even the icon of the middle-class gentrifier appears to be weak if compared to the great land purchasing power held by developers, so even the content of the term “gentrifier” has to be reconsidered here in order to comprise a different kind of gentrification agent/producer. Fourth, gentrification seems much more motivated by the influx of capital into local space in search of rent gaps “created” largely by a public policy of zoning (FARs) and much less by the “cultural” motivations or fashionable trends of urban consumption. Fifth, gentrification in inner areas might well be contributing to increasing the scale of segregation in the whole city, whereas affordable low-income housing production is driven further towards much cheaper areas, usually the distant outskirts



of the city, and this seems the only economic alternative in which the original low-income inner residents can relocate.

A more generic definition of gentrification taken from the case of Santiago could be this: a class-monopolized spatial restructuring that generates material and symbolic exclusion of less affluent original users. Although this definition might be too broad to help explain the specificities of some different realities of gentrification around the globe in places where formal land tenure and its commodification are not as pronounced as they are in Chile, the general approach to gentrification used in this article offers several theoretical and methodological contributions, for instance, the dispossession of ground rent means market exclusion as it reduces residents' purchasing capacity and the way they envisage their real and potential capabilities of staying in the same area, or at least nearby. This idea can nurture comparative analyses on the injustices of capital-driven urban redevelopment in cities of both the Global North and South that experience renewed forms of segregation and high rates of residential exclusion from central areas.

## Notes

1. First wave: pre-1973 sporadic gentrification in small neighborhoods in cities of the North-Atlantic region. Second wave: pre-1990, the process occurs in central neighborhoods of non-global cities with noticeable displacement effects. Third wave: post-recessionary gentrification, redevelopers transform entire neighborhoods with state support (Hackworth & Smith, 2001).
2. Some scholars disagree with this approach. Maloutas (2012) claims the term "gentrification" comes from the contextual roots of an Anglophone world where a particular urban history of inner city formation met with effects of physical revitalization. Maloutas' paper is interesting in that it reflects what some readers also might consider a fault in Clark's general definition of gentrification, or a sort of "inevitability" within the workings of capitalism that glosses over important contextual differences by bringing to the fore this dominant Anglophone expression.
3. Administrative local-level territory governed by a municipality. Its space is regulated by a local urban master plan. The term can be used to refer to a territory, the people who inhabit it or the municipality that governs that territory. The Greater Santiago Metropolitan Area comprises 34 *comunas*. Starting from the metropolitan core and counter clockwise: Santiago (Centro), Recoleta, Independencia, Renca, Quinta Normal, Estación Central, Cerrillos, Pedro Aguirre Cerda, San Miguel, San Joaquín, and Macul.
4. The concept of inner area or inner *comuna* that I use here is similar yet not equal to that of "inner city" traditionally used in the Anglo-American literature, as the latter is differently related to highly concentrated poverty and racial segregation and has even been related to an "underclass", which does not necessarily occur in Latin America.
5. One limitation of this method is that the CGR-2 is not always exactly estimated because it might include part of the building value, due to the difficulty of exactly disaggregating the latter value from the total selling price.
6. Despite some ups and downs that reveal the changing scale of construction that redevelopers achieve as part of the economic uncertainties that are inherent to the construction market; in this case, the long-term effects of the so-called 1998–2002 Asian Crisis.
7. One of the few exceptions is probably the Providencia *comuna*, which is located in the heart of the self-segregated upper-income area of the metropolis, has superior environmental qualities, and whose original population demands an active stance of their *comuna*

government against profit-seeking developers. Providencia *comuna* has achieved combining very active real estate with much lower FARs. Schlack and Vicuña (2011) offer a complete analysis of policies of FAR implementation in this area.

8. The Chilean Unidad de Fomento (UF) is a unit of account constantly adjusted to inflation, so that the value of the UF remains constant. By 2012, it was equivalent to approximately US\$46. Prices of land, houses and real estate financing instruments are defined in UFs in Chile.
9. Neil Smith (1979, p. 544) defines blockbusting as real estate agents' exploitation of "racist sentiments in white neighborhoods that are experiencing declining sale prices; they buy houses relatively cheaply and then resell at a considerable mark up to black families, many of whom are desperate to own their first home. [...] Once blockbusting has taken place, however, further decline in house values is likely due to the inflated prices at which houses were sold and the consequent lack of resources for maintenance and mortgage payments suffered by incoming families."

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